PERSI

NEWS TO USE

A newsletter for PERSI employers

July 2004
• Board Member changes
• Board actively manage 401(k)

PERSI welcomes one new Retirement Board member, says goodbye to another

PERSI welcomes Clifford T. Hayes as a new appointee to your Retirement Board, effective July 1, 2004. Cliff is Chief of Police for the City of Post Falls, and has been with the Post Falls Police Department since 1983. Hired as a dispatcher, he has moved through the ranks, holding the positions of Patrol Officer and Detective. He became Chief of Police in 1987. Cliff is also currently President of the Idaho Chief's of Police Association.

PERSI also says goodbye to departing Board Member Sue Simmons. Sue has served on the PERSI Board since 1995, and during her tenure has served on the Audit Committee and the Alternative Investment Subcommittee. Over the years, her financial expertise has been invaluable to the Board and PERSI members as a whole. She is currently Administrator for the Division of Administrative Services at the Idaho Department of Transportation. We thank Sue for all her hard work and dedication to PERSI.

PERSI has a five-member Retirement Board. Trustees are appointed by the Governor for terms lasting five years. These appointments are subject to Senate confirmation. State law requires that two members of the Board be active PERSI members with at least ten years of service, while the other three come from the private sector.

Members do NOT have to withdraw their PERSI money if they stop working

A Base Plan Account Withdrawal (formally called a Separation Benefit) is a lump-sum payment of the money a member contributed to the PERSI Base Plan, plus interest on those contributions. Terminating employees do NOT have to withdraw their funds, and therefore do NOT have to complete an RS-108 Request for Base Plan Account Withdrawal form. Some employers automatically give terminating employees an RS-108. We request that you do not give members 108s unless you know that they want to withdraw their funds. All too often we hear from members who did not want to withdraw but did so because their employer gave them the form to fill out.

PERSI funds are handled as follows:

Less Than 5 Months of Service: For members who terminate with less than 5 months of service (or worked less than 20 hours per week, or less than 1/2 contract for teachers) their contributions will be returned automatically.

5 to 59 Months of Service: For members eligible for PERSI (worked 5 months or more) but not vested to a retirement benefit (did not reach 60 months of service), they may leave their funds in PERSI for three years. If after that time they have not returned to PERSI, they will be notified to withdraw their funds.

60 Months or More of Service: For members vested to a monthly retirement benefit, they may leave their funds in PERSI until they are old enough to retire. We strongly suggest that a vested member speak with PERSI before deciding to take a withdrawal, as a pension can be worth a great deal more than simply the member's contributions and interest.

Your Retirement Board actively monitors and manages the PERSI Choice Plan 401(k) for you

A great way for members to build their savings nest eggs is to consistently contribute as much as possible to the Choice Plan 401(k).

You may think that the PERSI Choice Plan 401(k) runs itself, but in fact, your Retirement Board is very active in the management of the plan. Among many other things, the Board continually monitors the performance of the different investment options the plan offers. The Board reviews quarterly reports on fund performance and remove managers that are not performing to our standards. An example of this was when, in August 2003, PERSI replaced ING as a fund option with T. Rowe Price because ING's fund style and ongoing performance did not meet plan expectations. The Board also monitors fund asset management fees to keep them as low as possible for you. An example of this also occurred in August 2003, when we changed the type of shares offered in the Vanguard Growth and Income Fund to offer a 0.11% lower expense ratio, meaning more earnings for Vanguard investors.

And recently, the Board took action to protect plan participants from trading practices that adversely affect the plan due to "Market Timing" or "Excessive Trading." Over six months ago, PERSI found that a handful of participants had been engaging in market timing or excessive trading practices in the two international funds (Mellon International and Brandes International) in the PERSI Choice Plan 401(k) . While this is not illegal, it skews the performance of those funds, increases costs to all of the participants in the funds, and dilutes the returns of long-term shareholders in the funds.

The Choice Plan is designed to give members a low-cost, long-term retirement savings vehicle to supplement their PERSI Base Plan benefit. It is not meant for market timing and/or day trading.

The Investment Policy was changed in December 2003 to address the concerns raised by these practices. The full policy is available on our website at: www.persi.state.id.us/Choice_Plan/Choice_Plan_Investment_Policy.htm.

Trading Limitations to be Imposed

Effective August 1, 2004, the number of trades (transfers) into and out of the Mellon International and Brandes International funds will be limited to two trades per fund in a 90-day period. The 90-day period will be based on calendar days and will be calculated on a rolling period from the current date. Systematic purchases and redemptions, such as payroll deferrals, rollovers, and scheduled periodic distributions are exempt from the limits.

The market timing/excessive trading issue affects plans throughout the U.S. and has caught the attention of the media and regulatory agencies. The SEC is preparing proposals to address the issue for funds under its control. Other plans are making changes as well. Likewise, the Retirement Board has decided to take steps to protect the assets of all plan participants.